

## **The Fiscal and Macroeconomic Impacts of Reforming Energy Subsidy Policy in Malaysia**

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**Abstract :** The rationalization of a gradual subsidies reforms plan has been set out by the Malaysian government to achieve the high-income nation target. This paper attempts to analyze the impacts of energy subsidy reform policy on fiscal deficit and macroeconomics variables in Malaysia. The Computable General Equilibrium (CGE) Model is employed. Three simulations based on different groups of scenarios have been developed. Importantly, the overall results indicate that removal of fuel subsidy has significantly improved the real GDP and reduced the government fiscal deficit. On the other hand, the removal of the fuel subsidy has increased most of the local commodity prices, especially energy commodities. The findings of the study could provide some imperative inputs for policy makers, especially to identify the right policy mechanism. This is especially ensures the subsidy savings from subsidy removal could be transferred back into the domestic economy in the form of infrastructure development, compensation and increases in others sector output contributions towards a sustainable economic growth.

**Keywords :** CGE, deficit, energy, reform, subsidy

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